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E.O. 12958: DECL: 08/29/2019  
TAGS: EFIN ETTC KNNP IR PINR  
SUBJECT: IMPENDING DESIGNATION OF FIRST EAST EXPORT BANK

REF: A. STATE 013998  
    1B. KUALA LUMPUR 402

Classified By: ISN Acting A/S Vann H. Van Diepen,  
for reasons 1.4 (b) and (d).

¶1. (U) This is an action request. Please see paragraph 4.

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SUMMARY/BACKGROUND  
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¶2. (S) We have on numerous occasions raised our concerns with the Government of Malaysia (GOM), and Malaysia's Central Bank, over the establishment in 2009 in Labuan of the First East Export Bank (FEEB), a subsidiary of Iran's Bank Mellat. Bank Mellat and its subsidiaries worldwide were designated for an asset freeze on October 25, 2007, under Executive Order 13382 for its support of proliferation activities, and we are concerned that Iran could use FEEB to facilitate proliferation-related transactions. We requested that the Central Bank of Malaysia (Bank Negara) withdraw FEEB's operating license in February 2009 (Ref A). The Ambassador told the Bank Negara chairman in May 2009 that the U.S. continued to object to FEEB's operations in Labuan and that it would likely be designated under E.O. 13382 after FEEB became operational (Ref B). U.S. Treasury officials have also informed the GOM that the U.S. would sanction FEEB if it receives a license, most recently during a meeting in Washington with Malaysia's Deputy Finance Minister on April 25, 2009. The GOM has told us repeatedly that FEEB's license will not be revoked unless it violates Malaysian law or it is put on a UN list of proliferation-related entities. We would like to provide the GOM with new information about FEEB that helps to substantiate our concerns, give the GOM another chance to take action against FEEB, and notify it that we will proceed with sanctions if it does not commit to revoke the license.

¶3. (SBU) We should stress that not permitting FEEB to operate within Malaysia is in the GOM's economic interest. Allowing financial institutions that engage in illicit activities to operate increases the risk to the financial system as a whole. An increased perception of risk by international firms could negatively impact foreign investment levels as well as Malaysia's reputation as a regional financial hub. We should also stress that this action would be consistent with the International Community's Development approach of taking specific measures that are intended to help dissuade Iran from continuing down its current path of isolation.

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OBJECTIVES/ACTION REQUEST  
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¶4. (S/REL MYS) Washington requests Post pursue the following objectives at an Ambassador-level approach:

-- Remind the GOM of our numerous warnings that the U.S. views FEEB as a proliferation risk and a threat to the U.S. financial system and would therefore be compelled to sanction

FEEB if it was allowed to open and operate.

-- Note that FEEB is the first overseas Iranian bank subsidiary to open for business since the Financial Action Task Force issued a statement in February 2009 warning of the risks posed to the international financial system from deficiencies in Iran's anti-money laundering and counter-terrorist financing regime. This statement advised jurisdictions to take into account these risks when considering requests by Iranian banks to open branches and subsidiaries in their jurisdictions.

-- Emphasize to the GOM that as a leader in Southeast Asian finance, especially Islamic finance, allowing banks like FEEB to operate in its jurisdiction is inconsistent with international efforts to safeguard the integrity of the international financial system from Iranian abuse. This decision could lead to significant reputational risk for the Malaysian financial sector.

-- Deliver the non-paper in paragraph 4 on Bank Mellat's proliferation-related activities and note the new information on FEEB.

-- Note that the U.S., in the interest of the nonproliferation cooperation we hope to build with Malaysia, again encourages the GOM to take action against FEEB before the U.S. proceeds with sanctions.

-- Inform the GOM that if the GOM commits to revoke FEEB's operating license within one week of delivery of the attached nonpaper, that the U.S. will not sanction FEEB under Executive Order 13382. If the GOM does not commit to revoke the license, the U.S. will immediately proceed with sanctions.

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S/REL MYS NONPAPER  
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15. Begin text of nonpaper.

FIRST EAST EXPORT BANK

We have on numerous occasions in the last year raised our concerns with you over the establishment in Labuan of the First East Export Bank (FEEB). These concerns fall into two categories.

First, we believe the establishment of this bank, given its connection to Bank Mellat, could allow the government of Iran to facilitate proliferation-related activity in your jurisdiction.

-- FEEB is a subsidiary of Iran's state-owned Bank Mellat. In mid-2007, Bank Mellat was involved with Iran's Bank Sepah in facilitating millions of dollars in business with the Aerospace Industries Organization. The entity that oversees Iran's various Ballistic Missile entities and missile-related resources and development. As you know, Bank Sepah was designated for an asset freeze in UN Security Council Resolution 1747 for its role in Iran's nuclear or missile programs.

-- The government of Iran, through state-owned banks such as Bank Mellat, disguises its involvement in proliferation and terrorism activities through an array of deceptive practices specifically designed to evade detection. For this reason, FEEB poses a grave risk as a conduit for such proliferation-or terrorism-related transactions.

Secondly, we have new information indicating that FEEB is helping an Iranian company, Naftiran Intertrade Corporation (NICO), circumvent U.S. sanctions by providing financing that could be used to invest in the Iranian energy sector.

-- On November 26, 2008, the U.S. Department of Treasury identified NICO as an entity owned or controlled by the Government of Iran and subject to sanctions under the U.S.

Iranian Transactions Regulations (ITR). NICO was added to the appendix of the ITR, which prohibit most U.S. commercial and financial transactions with entities owned or controlled by the Government of Iran, including any branches or subsidiaries, regardless of the location or incorporation.

-- In May 2009, NICO executives planned to form a holding company that, in turn, would set up a subsidiary, not subject to U.S. sanctions. This subsidiary could be used to engage in trade and project financing for primarily Iranian petroleum projects.

-- We believe FEEB is providing the financing for this endeavor.

-- It is not unusual for companies to set up subsidiaries in order to evade U.S. sanctions, but such practices are not acceptable.

-- FEEB's willingness to engage in such business practices can harm Malaysia's efforts to attract legitimate banking interests and increases the risk that FEEB would be willing to facilitate proliferation-related trade as well, given its connection to Bank Mellat. This perception of increased risk in Malaysia's financial system could have a negative impact on the country's foreign investment.

#### PREVIOUS EFFORTS

We have urged you to revoke FEEB's license to operate in Labuan and have warned that the U.S. would likely designate FEEB under Executive Order (E.O.) 13382 in order to address FEEB's activities of proliferation concern, protect the U.S. financial system, and alert the international financial sector to FEEB's connection to Bank Mellat, a proliferation-related entity.

We have urged you to revoke FEEB's operating license, which would be consistent with the call in UNSCR 1803 to "exercise vigilance over the activities of financial institutions in their territories with all banks domiciled in Iran, and their branches and subsidiaries abroad."

We have provided information to you on Bank Mellat's continued facilitation of proliferation-related activities and have information that FEEB is being used to possibly circumvent U.S. sanctions.

FEEB is the first overseas Iranian bank subsidiary to open for business since the Financial Action Task Force issued a statement in February 2009 warning of the risks posed to the international financial system from deficiencies in Iran's anti-money laundering and counter-terrorist financing regime.

This statement advised jurisdictions to take into account these risks when considering requests by Iranian banks to open branches and subsidiaries in their jurisdictions.

Malaysia is a leader in Southeast Asian finance, especially Islamic finance. Allowing banks like FEEB to operate in your jurisdiction is inconsistent with international efforts to safeguard the integrity of the international financial system from Iranian abuse. This decision could lead to significant reputational risk for the Malaysian financial sector.

The U.S., in the interest of the nonproliferation cooperation we hope to build with Malaysia, again encourages the GOM to take action against FEEB before the U.S. proceeds with sanctions.

If the GOM commits within one week to revoke FEEB's operating license, the U.S. will not sanction FEEB under Executive Order 13382. If the GOM does not commit to revoke the license, the U.S. will have to proceed with sanctions. Sanctioning FEEB would be consistent with the U.S. approach of taking specific measures against Iran that are intended to prevent its proliferation activity and convince Tehran to turn away from its current path of isolation and accept the generous package of incentives offered by the P5 1.

## INFORMATION ON BANK MELLAT'S PROLIFERATION ACTIVITIES

The U.S. has information indicating that Bank Mellat provided financial services in support of Iran's nuclear industry, namely the Atomic Energy Organization of Iran (AEOI) by servicing and maintaining AEOI bank accounts, mainly through an AEOI front company, the Novin Energy Company. Bank Mellat has facilitated the movement of millions of dollars for Iran's nuclear program.

Novin Energy Company acted as a financial conduit for AOEI, having moved millions of dollars on its behalf since its creation in 2001. In addition, AOEI's President is also the Managing Director of Novin Energy Company.

Bank Mellat facilitated millions of dollars in business for Novin Energy Company.

In addition, as of 2006, a suspected Iranian nuclear procurer associated with Kalaye Electric Company conducted business with Bank Mellat.

Kalaye Electric Company, which was listed in the Annex to UN Security Council Resolution 1737 on December 23, 2006, is an Iranian centrifuge research and design entity and is subordinate to AEOI.

## BANK MELLAT DEALINGS WITH OTHER WMD PROLIFERATION ENTITIES OF CONCERN

More recently, Bank Mellat has become further involved in facilitating millions of dollars in business involving Iran's Aerospace Industries Organization (AIO).

AIO oversees Shahid Hemmat Industrial Group and Shahid Bakeri Industrial Group, which are responsible for Iran's ballistic missile program and are designated in the Annex of UN Security Council Resolution 1737.

In mid-2007, Bank Mellat was involved with Bank Sepah in facilitating millions of dollars in business with AIO.

Bank Sepah is designated in the Annex of UN Security Council Resolution 1747.

In mid-2007, an Iranian entity, associated with its missile industry, suggested that China Precision Machinery Import Export Corporation, an entity designated under Executive Order 13382 for providing material support to Iran's missile program, used Bank Mellat to finance purchases associated with the contract for missile-related goods.

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### REPORTING DEADLINE

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**¶6.** (U) Post should deliver the nonpaper as soon as possible and report results within seven business days of delivery. Please slug replies for ISN, T, EAP, TREASURY, and NEA. Please use the caption SIPDIS in all replies.

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### POINT OF CONTACT

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**¶7.** (U) Washington points of contact for follow-up information are Jennifer Chalmers, ISN/CPI, (202) 647-9715 and Dan Bischof, EAP/MTS, (202) 647-4932.

**¶8.** (U) Department thanks Post for its assistance.  
CLINTON